

REPORT OF
COUNTY EMPLOYEES' RETIREMENT FUND
DECEMBER 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
County Employees' Retirement Fund

We have audited the accompanying financial statements of the County Employees' Retirement Fund ("CERF"), which comprise the statements of plan net position as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the County Employees' Retirement Fund as of December 31, 2012 and 2011, and the changes in plan net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 - 8 and the schedules of funding progress and employer contributions on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information included on pages 23 - 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

William - Keppner LLC

May 22, 2013

COUNTY EMPLOYEES' RETIREMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the County Employees' Retirement Fund's (CERF) financial performance provides an introduction to the financial statements of CERF for the years ended December 31, 2012 and 2011. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the financial statements.

Required Financial Statements

CERF, a public employees' retirement plan, prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Position includes all of CERF's assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the net position held in trust for pension benefits are accounted for in the Statement of Changes in Plan Net Position. This statement measures CERF's success over the past year in increasing the net position available for pension benefits.

Financial Analysis of CERF

While the Statement of Plan Net Position and Statement of Changes in Plan Net Position measure the value of plan net position and the changes to them, there are other important factors to be considered in order to determine CERF's long-term ability to support member benefits. Among these additional factors is the plan's funded status. On an actuarial basis, the assets held as of June 30, 2012 cover 69% of the actuarial accrued liability, which is slightly below the 70% funded ratio for June 30, 2011. If a ratio of the actuarial value of assets to the actuarial present value of accrued benefits based on plan members' current compensation is used, the funded ratio as of June 30, 2012 is 80%. The plan actuary states that because the mechanics of the actuarial asset smoothing method holds back asset gains to offset possible future temporary losses, the funded ratio has slipped to 68% at December 31, 2012, based on the actuarial value of assets. For the year ended December 31, 2012, the plan overall experienced a gain of 13.20%, which is above the 8% actuarial assumption. The funded ratio as of December 31, 2012, based on the fair market value of assets, is 70%.

CERF uses other tools to monitor its actuarial results. We perform an actuarial gain and loss analysis every year to monitor each significant actuarial assumption. CERF also performs an actuarial experience study approximately every 5 years so that we can make any adjustments in actuarial assumptions if indicated. Also, importantly, we carry out a 40-year projection to make sure that our funded ratio can be expected to reach 100% within a reasonable time-frame.

In 2012, contributions combined with net investment income and securities lending income totaling \$71,086,084 exceeded deductions of \$27,894,696. A net increase of \$43,191,388 brought the plan's net position to \$348,915,519. For actuarial calculations, certain assumptions were changed beginning in 2008, based on a six-year experience study. Specifically, the salary increase assumption was strengthened, the member turnover assumption was increased, and the retirement age assumption was modified. A 5-year smoothing method to derive the actuarial asset value was also adopted. The plan is not 100% funded at present, as it is a relatively new plan created by legislation in August, 1994 and the CERF plan granted past service credit. Our funded position had steadily improved since inception, enabling CERF to make improvements to plan benefits effective October 1, 2007. The cost of these benefit enhancements continue to be reflected in this recent actuarial valuation. At June 30, 2012, the date of the latest actuarial valuation, the actuarial value of assets was \$331,189,281, while the fair market value of assets was \$326,820,719. The aggregate actuarial liability for CERF was \$482,565,132, based on plan members' projected compensation. The plan experienced an actuarial gain from member compensation increases that averaged 2.6%, which were lower than the actuarial assumption of an average 5.5%. However, an actuarial loss from Social Security experience partially offset the actuarial gain from the compensation increase assumption. The Social Security

National Average Wage Index is assumed to increase by 4.5%, but the actual increase was 2.4%.

Plan Net Position

To begin the financial analysis, a summary of CERF's plan net position is as follows:

Condensed Statements of Plan Net Position (in \$000's)

| | 2012 | 2011 | Dollar Change | Percent Change |
|--|------------|------------|------------------|-------------------|
| Cash and cash equivalents | \$ 1,830 | \$ 1,840 | \$ (10) | -1% |
| Receivables | 3,826 | 4,053 | (227) | -6% |
| Investments | 346,131 | 301,869 | 44,262 | 15% |
| Invested securities lending collateral | 46,947 | 63,074 | (16,127) | -26% |
| Other assets | 2 | 6 | (4) | -67% |
| Capital assets, net | 3,759 | 3,513 | 246 | 7% |
| Total assets | 402,495 | 374,355 | 28,140 | 8% |
| Liabilities | 53,579 | 68,631 | (15,052) | -22% |
| Total plan net position | \$ 348,916 | \$ 305,724 | \$ 43,192 | 14% |

Plan net position increased by \$43,191,388, or 14%, in 2012. This increase reflects investment gains experienced during 2012 from improved market return.

The following table presents the investment allocation for 2012 and 2011, and CERF's target allocation for 2012. CERF considers its land and administrative office building to be part of its real estate investment portfolio, whereas they are classified as capital assets in the financial statements. These percentages for 2012 are based on including the land and building at the 2010 appraisal amount. The percentages are also based on classifying temporarily uninvested cash in each investment fund as part of CERF's overall category, whereas such cash is classified as cash equivalents in the financial statements. Otherwise, these percentages may reflect some minor differences in classifications among categories as compared to the classifications used for investments in the accompanying financial statements.

| | 2012 | 2011 | Target |
|------------------------|-------|-------|--------|
| Fixed Income | 30.2% | 31.4% | 30.0% |
| U. S. Equities | 40.0% | 39.3% | 35.0% |
| International Equities | 13.9% | 14.0% | 15.0% |
| Private Equities | 1.5% | 1.2% | 5.0% |
| Equity Long/Short | 9.3% | 8.6% | 10.0% |
| Real Estate | 4.2% | 4.5% | 5.0% |
| Cash | 0.8% | 1.0% | * |

*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

Condensed Statements of Plan Net Position
(in \$000's)

| | 2011 | 2010 | Dollar Change | Percent Change |
|--|------------|------------|------------------|-------------------|
| Cash and cash equivalents | \$ 1,840 | \$ 1,689 | \$ 151 | 9% |
| Receivables | 4,053 | 4,719 | (666) | -14% |
| Investments | 301,869 | 299,365 | 2,504 | 1% |
| Invested securities lending collateral | 63,074 | 66,341 | (3,267) | -5% |
| Other assets | 6 | 10 | (4) | -40% |
| Capital assets, net | 3,513 | 3,602 | (89) | -2% |
| Total assets | 374,355 | 375,726 | (1,371) | 0% |
| Liabilities | 68,631 | 71,536 | (2,905) | -4% |
| Total plan net position | \$ 305,724 | \$ 304,190 | \$ 1,534 | 1% |

Plan net position increased by \$1,533,959, or a mere 1%, in 2011.

The following table presents the investment allocation for 2011 and 2010, and CERF's target allocation for 2012. CERF considers its land and administrative office building to be part of its real estate investment portfolio, whereas they are classified as capital assets in the financial statements. These percentages for 2011 are based on including the land and building at the 2010 appraisal amount. The percentages are also based on classifying temporarily uninvested cash in each investment fund as part of CERF's overall category, whereas such cash is classified as cash equivalents in the financial statements. Otherwise, these percentages may reflect some minor differences in classifications among categories as compared to the classifications used for investments in the accompanying financial statements.

| | 2011 | 2010 | Target |
|------------------------|-------|-------|--------|
| Fixed Income | 31.4% | 29.0% | 30.0% |
| U. S. Equities | 39.3% | 40.2% | 35.0% |
| International Equities | 14.0% | 15.4% | 15.0% |
| Private Equities | 1.2% | 80.0% | 5.0% |
| Equity Long/Short | 8.6% | 9.2% | 10.0% |
| Real Estate | 4.5% | 3.7% | 5.0% |
| Cash | 1.0% | 1.7% | * |

*The investment policy permits up to 3% of the portfolio to be in cash and cash equivalents.

Condensed Statements of Changes in Plan Net Position
(in \$000's)

| | 2012 | 2011 | Dollar Change | Percent Change |
|---------------------------------------|-----------|-----------|------------------|-------------------|
| Additions: | | | | |
| Contributions: | | | | |
| Counties receipts | \$ 19,919 | \$ 19,364 | \$ 555 | 3% |
| By members | 9,412 | 8,930 | 482 | 5% |
| For members, paid by counties | 1,151 | 1,032 | 119 | 12% |
| Members, purchase of prior service | 85 | 81 | 4 | 5% |
| Total contributions | 30,567 | 29,407 | 1,160 | 4% |
| Net investment income (loss) | 40,026 | (1,888) | 41,915 | -2220% |
| Net securities lending activities | 489 | 294 | 194 | -66% |
| Other income | 4 | 5 | (1) | -26% |
| Total additions | 71,086 | 27,818 | 43,268 | 156% |
| Deductions: | | | | |
| Benefits | \$ 20,274 | \$ 18,825 | \$ 1,449 | 8% |
| Refunds | 3,185 | 3,317 | (132) | -4% |
| Defined contribution plan match | 2,472 | 2,225 | 247 | 11% |
| Administrative expenses | 1,964 | 1,917 | 47 | 2% |
| Total deductions | 27,895 | 26,284 | 1,611 | 6% |
| Net increase | \$ 43,191 | \$ 1,534 | \$ 41,657 | 2715% |

Condensed Statements of Changes in Plan Net Position
(in \$000's)

| | 2011 | 2010 | Dollar Change | Percent Change |
|---------------------------------------|-----------|-----------|------------------|-------------------|
| Additions: | | | | |
| Contributions: | | | | |
| Counties receipts | \$ 19,364 | \$ 19,740 | \$ (376) | -2% |
| By members | 8,930 | 8,406 | 524 | 6% |
| For members, paid by counties | 1,032 | 1,078 | (46) | -4% |
| Members, purchase of prior service | 81 | 75 | 6 | 8% |
| Total contributions | 29,407 | 29,299 | 108 | 0% |
| Net investment income | (1,888) | 37,188 | (39,076) | -105% |
| Net securities lending activities | 294 | (250) | 544 | 218% |
| Other income | 5 | 5 | 1 | 14% |
| Total additions | 27,818 | 66,242 | (38,423) | -58% |

| | 2011 | 2010 | Dollar Change | Percent Change |
|---------------------------------|-----------|-----------|------------------|-------------------|
| Deductions: | | | | |
| Benefits | \$ 18,825 | \$ 16,246 | \$ 2,579 | 16% |
| Refunds | 3,317 | 2,616 | 701 | 27% |
| Defined contribution plan match | 2,225 | 2,127 | 98 | 5% |
| Administrative expenses | 1,917 | 1,842 | 75 | 4% |
| Total deductions | 26,284 | 22,831 | 3,453 | 15% |
| Net increase | \$ 1,534 | \$ 43,411 | \$ (41,876) | -96% |

Additions

Additions needed to fund benefits are accumulated through contributions, which include both county fee receipts and employee contributions, and returns on invested funds. Contributions for 2012 totaled \$30,567,164, which was 4.0% above those received in 2011. Contributions for 2011 totaled \$29,406,647, which was 0.4% above those received in 2010. Due to the legislation which took effect in 2003, as new employees continue to replace employees hired prior to February 25, 2002, employee contributions are expected to continue to rise.

The year 2012 was strong for domestic and international stocks, but relatively weak for bonds. The \$41,914,729 increase in net investment income in 2012, as compared to 2011, is attributable to a rebound in the market environment in 2012. For example, the S&P 500 Index returned 2.1% in 2011, and increased to 16.0% in 2012. Similarly, the MSCI EAFE Index lost 11.8% in 2011 and gained 17.9% in 2012. Consequently, the total rate of return for the CERF portfolio in 2012 was 13.7%, as compared to (0.1)% in 2011. CERF's Large Cap U.S. Equities returned 18.4%, as compared to 16.0% for the S&P 500 Index. The Small/Mid Cap U.S. Equities returned 20.7%, as compared to 17.9% for the Russell 2500 Index. The fixed income portfolio returned 9.7%, as compared to 4.2% for the Barclays Capital Aggregate Index. CERF's international stock portfolio returned 12.8%, as compared to 17.9% for the MSCI EAFE Index. The Equity Long/Short position returned 9.8%, as compared to 16.0% for the S&P 500 Index. CERF's Private Equity investment returned 12.7% as compared to the S&P 500 of 16.0%. The Real Estate portfolio consists of an investment in core real estate, as well as CERF's office building. In 2012, the core real estate investment returned 10.9%, as compared to the NFI ODCE Index return of 9.8%. The office building was appraised in mid-2010 with a market value of \$3,500,000. The return on investment in CERF's office building will continue to be recognized as periodic appraisals are conducted every five years.

The year 2011 was relatively strong for private equity and commercial real estate, but weak for international stocks and domestic equity markets, resulting in a \$39,076,337 decrease in net investment income in 2011, as compared to 2010. For example, the S&P 500 Index returned 15.1% in 2010, and decreased to 2.1% in 2011. Similarly, the MSCI EAFE Index gained 8.2% in 2010 and lost 11.8% in 2011. Consequently, the total rate of return for the CERF portfolio in 2011 was (0.1)%, as compared to 14.7% in 2010. CERF's Large Cap U.S. Equities returned (1.1)%, as compared to 2.1% for the S&P 500 Index. The Small/Mid Cap U.S. Equities returned 1.6%, as compared to (2.5)% for the Russell 2500 Index. The fixed income portfolio returned 4.3%, as compared to 7.9% for the Barclays Capital Aggregate Index. CERF's international stock portfolio returned (8.8)%, as compared to (11.8)% for the MSCI EAFE Index. The Equity Long/Short position returned (5.9)%, as compared to 2.1% for the S&P 500 Index. CERF's Private Equity investment returned 11.1% as compared to the S&P 500 of 2.1%. The Real Estate portfolio consists of an investment in core real estate, as well as CERF's office building. In 2011, the core real estate investment returned 18.8%, as compared to the NFI ODCE Index return of 14.9%. The office building was appraised in mid-2010 with a market value of \$3,500,000. The return on investment in CERF's office building will continue to be recognized as periodic appraisals are conducted every five years.

Beginning in January 2006, the Board of Directors authorized CERF to enter into a Securities Lending Agreement with Key Bank, thus allowing CERF to lend its securities to broker-dealers, for the purpose of providing additional income to CERF. In 2012, CERF experienced a net unrealized securities lending gain of \$488,657, as compared to \$294,403 in 2011. The gain was a result of appreciation in the fair value of investments purchased with the collateral received in the lending transactions.

When comparing returns, it is important to note that CERF's investment objectives should be pursued as long-term goals designed to maximize return while reducing exposure to undue risk, as set out in the Board's investment policy. At a minimum, it is the objective of CERF to meet its actuarial interest assumption on an ongoing basis. Currently, the actuarial assumption for investment return is 8%. The desired objective on a long-term basis is to achieve an excess return over the actuarial assumption of 1%, which is an absolute objective of 9%, net of investment management fees and transaction costs. Long term is defined as greater than 10 years. Some of the results for the total fund are:

| <u>Period</u> | <u>Returns</u> | <u>Other Public Funds</u> |
|-----------------|----------------|---------------------------|
| One Year | 13.7% | 24th Percentile |
| Three Years | 9.2% | 39th Percentile |
| Five Years | 4.4% | 20th Percentile |
| Ten Years | 8.2% | 22nd Percentile |
| Since Inception | 8.9% | |

Deductions

The expenses paid by CERF include benefit payments, refunds, a defined contribution plan match, and administrative expenses. Due to new legislation which took effect August 28, 2012, expenses also include refunds of contributions to beneficiaries of non-vested active members who died after December 31, 2002.

Expenses for 2012 totaled \$27,894,696, an increase of \$1,610,740 over 2011. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 3,672 in 2012 from 3,446 in 2011 (an increase of 226 payees), as well as an increase in the amount of the average benefit. There was also an increase of \$247,403 in the amount necessary to make the defined contribution plan match for 2012.

Expenses for 2011 totaled \$26,283,956, an increase of \$3,452,925 over 2010. The increase in benefit payments to members and beneficiaries resulted primarily from growth in the number of annuitants to 3,446 in 2011 from 3,144 in 2010 (an increase of 302 payees), as well as an increase in the amount of the average benefit. There were also an increase of \$98,009 in the amount necessary to make the defined contribution plan match for 2011 and a significant increase in the amount of contributions refunded to terminated non-vested employees in 2011.

Economic Outlook

CERF's estimated investment return for the three months ended March 31, 2013, is approximately 6.4%. CERF's investments as of March 31, 2013 total approximately \$370,321,000, an increase of \$20,690,000 since December 31, 2012, due to first quarter appreciable investment return and plan contributions. For the first quarter 2013, the S&P 500 Index return was 10.6%, the Barclays Capital Aggregate Index was (0.1)%, the Russell 2500 was 12.9%, the NFI ODCE Index was 2.7%, and the MSCI EAFE Index was 5.2%.

COUNTY EMPLOYEES' RETIREMENT FUND

STATEMENTS OF PLAN NET POSITION December 31, 2012 and 2011

| | 2012 | 2011 |
|---|----------------|----------------|
| ASSETS | | |
| Cash | \$ 1,830,262 | \$ 1,840,233 |
| Receivables: | | |
| Member contributions | 311,115 | 347,785 |
| Member prior service contributions | 131,408 | 127,692 |
| County contributions | 2,465,797 | 2,701,683 |
| Receivable for pending investment sales | 178,975 | 195,843 |
| Accrued interest and dividends | 738,790 | 680,435 |
| Total receivables | 3,826,085 | 4,053,438 |
| Investments, at fair value: | | |
| U.S. government and agencies | 15,789,995 | 16,220,776 |
| Foreign bonds | 15,033,696 | 9,521,724 |
| Corporate bonds | 26,923,953 | 25,725,906 |
| Domestic stocks | 134,612,707 | 114,072,163 |
| International equities funds | 48,575,760 | 42,800,813 |
| Private equity | 5,379,993 | 3,743,106 |
| Hedge funds | 79,098,504 | 70,119,326 |
| Real estate fund | 11,313,670 | 10,320,633 |
| Cash equivalents | 9,402,505 | 9,344,815 |
| Total investments | 346,130,783 | 301,869,262 |
| Invested securities lending collateral | 46,947,061 | 63,074,150 |
| Other assets | 2,001 | 5,549 |
| Capital assets, net of accumulated depreciation of \$2,273,197 and \$2,190,846 | 3,758,382 | 3,512,871 |
| Total assets | 402,494,574 | 374,355,503 |
| LIABILITIES | | |
| Accounts payable | 780,620 | 377,035 |
| Accrued defined contribution plan funding | 2,472,044 | 2,224,641 |
| Other accrued expenses | 167,542 | 86,118 |
| Deferred revenue | 145,497 | 248,281 |
| Payable for pending investment purchases | 1,690,142 | 874,771 |
| Collateral for securities on loan | 48,323,210 | 64,820,526 |
| Total liabilities | 53,579,055 | 68,631,372 |
| Net position - restricted for pension benefits | \$ 348,915,519 | \$ 305,724,131 |
| (A schedule of funding progress is presented on page 22) | | |

The notes to financial statements are an integral part of these statements

COUNTY EMPLOYEES' RETIREMENT FUND

STATEMENTS OF CHANGES IN PLAN NET POSITION For the Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|----------------|----------------|
| ADDITIONS: | | |
| Contributions: | | |
| County receipts | \$ 19,919,125 | \$ 19,364,023 |
| By members | 9,412,122 | 8,929,581 |
| For members, paid by counties | 1,150,772 | 1,032,000 |
| Members, purchase of prior service | 85,145 | 81,043 |
| Total contributions | 30,567,164 | 29,406,647 |
| Investment income (loss): | | |
| Investing activities: | | |
| Net appreciation (depreciation) in fair value of investments | 35,630,796 | (5,933,531) |
| Fixed income securities | 2,632,257 | 2,602,826 |
| Equity securities | 3,653,395 | 2,813,769 |
| Alternative investments | - | 111,207 |
| Other miscellaneous income | 12,199 | 201,588 |
| Total investment income | 41,928,647 | (204,141) |
| Investment expenses | (1,902,165) | (1,684,106) |
| Net income (loss) from investing activities | 40,026,482 | (1,888,247) |
| Securities lending activities: | | |
| Income | 161,070 | 190,968 |
| Expenses | (42,640) | (85,487) |
| Net increase in fair value of re-invested collateral | 370,227 | 188,922 |
| Net income from securities lending activities | 488,657 | 294,403 |
| Total net investment income (loss) | 40,515,139 | (1,593,844) |
| Other income | 3,781 | 5,112 |
| Total additions | 71,086,084 | 27,817,915 |
| DEDUCTIONS: | | |
| Benefits | 20,273,110 | 18,825,068 |
| Refunds of member contributions | 3,185,425 | 3,316,811 |
| Defined contribution plan matching contribution | 2,472,044 | 2,224,641 |
| Administrative expense | 1,964,117 | 1,917,436 |
| Total deductions | 27,894,696 | 26,283,956 |
| Net increase | 43,191,388 | 1,533,959 |
| Net position - restricted for pension benefits | | |
| Beginning of year | 305,724,131 | 304,190,172 |
| End of year | \$ 348,915,519 | \$ 305,724,131 |

The notes to financial statements are an integral part of these statements

COUNTY EMPLOYEES' RETIREMENT FUND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The County Employees' Retirement Fund ("CERF") financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

CERF adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the year ended December 31, 2012. The objective of this Statement is to identify net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Method Used to Value Investments: Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Bonds and stocks traded on a national or international exchange are valued at the last reported sales price at current exchange rates as reported by independent pricing services. The values of real estate included in the real estate fund investment are based upon annual independent appraisals, updated quarterly, as provided by the fund manager. Investments that do not have an established market are reported at estimated fair value as provided by investment or fund managers.

Property and Equipment: Property and equipment, including computer software programs, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated lives of the assets of from three to fifty years.

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

2. PLAN DESCRIPTION

CERF was established by an act of the Missouri General Assembly effective August 28, 1994. Laws governing the retirement fund are found in Sections 50.1000-50.1300 of the Missouri Revised Statutes (RSMo). The Board of Directors consists of eleven members, nine of whom are county employee participants. Two members, who have no beneficiary interest in CERF, are appointed by the Governor of Missouri. The Board of Directors has the authority to adopt rules and regulations for administering the system.

CERF is a mandatory cost-sharing multiple employer retirement system for each county in the state of Missouri, except any city not within a county (which excludes the City of St. Louis) and counties of the first classification with a charter form of government. CERF covers county elective or appointive officers or employees whose position requires the actual performance of duties not less than 1,000 hours per year; including employees of circuit courts located in a first class, non-charter county which is not participating in the Local Government Employees Retirement System (LAGERS); and does not cover circuit clerks, deputy circuit clerks, county prosecuting attorneys, and county sheriffs. Until January 1, 2000, employees hired

before January 1, 2000 could opt out of the system. CERF is a defined benefit plan providing retirement and death benefits to its members. All benefits vest after 8 years of creditable service. Employees who retire on or after age 62 are entitled to an allowance for life based on the form of payment selected. The normal form of payment is a single life annuity. Optional joint and survivor annuity and 10-year certain and life annuity payments are also offered to members in order to provide benefits to a named survivor annuitant after their death. Employees who have a minimum of 8 years of creditable service may retire with an early retirement benefit and receive a reduced allowance after attaining age 55. Annual cost-of-living adjustments, not to exceed 1%, are provided for eligible retirees and survivor annuitants, up to a lifetime maximum of 50% of the initial benefit which the member received upon retirement. Benefit provisions are fixed by state statute and may be amended only by action of the Missouri Legislature. Administrative expenses for the operation of CERF are paid out of the funds of the system.

Contributions: Prior to January 1, 2003, participating county employees, except for those who participated in LAGERS, were required to make contributions equal to 2% of gross compensation. Effective January 1, 2003, participating county employees hired on or after February 25, 2002 are required to make contributions of 4% if they are in a LAGERS county and contributions of 6% if they are in a non-LAGERS county. If an employee leaves covered employment before attaining 8 years of creditable service, accumulated employee contributions are refunded to the employee. The contribution rate is set by state statute and may be amended only by action of the Missouri Legislature.

Counties may elect to make all or a portion of the required 4% contribution on behalf of employees. Total county-paid member contributions for the years ended December 31, 2012 and 2011 were \$1,150,772 and \$1,032,000, respectively.

In addition, the following fees and penalties prescribed under Missouri law are required to be collected and remitted to CERF by counties covered by the plan:

- * Late fees on filing of personal property tax declarations
- * Twenty dollars for each merchants and manufacturers license issued
- * Six dollars on each document recorded or filed with county recorders of deeds, with an additional one dollar on each document recorded
- * Three sevenths of the fee on delinquent property taxes
- * Interest earned on investment of the above collections prior to remittance to CERF

The fees and penalties collected and remitted to CERF by counties covered by the plan for the years ended December 31, 2012 and 2011 were as follows:

| | 2012 | | 2011 | |
|--------------------------------------|---------------------|-------------|---------------------|-------------|
| Delinquent property tax fees | \$ 7,798,545 | 39.15% | \$ 8,039,013 | 41.52% |
| Assessor late assessment filing fees | 5,500,328 | 27.61% | 5,230,653 | 27.01% |
| Recorder document fees | 5,478,788 | 27.51% | 4,898,134 | 25.30% |
| Merchants and manufacturers licenses | 1,086,122 | 5.45% | 1,142,799 | 5.90% |
| Interest on the above fees | 55,342 | 0.28% | 53,424 | 0.28% |
| | <u>\$19,919,125</u> | <u>100%</u> | <u>\$19,364,023</u> | <u>100%</u> |

Members: CERF members include eligible employees of 111 counties in the State of Missouri. The number of members and benefit recipients served by the system at December 31, 2012 and 2011 were:

| | 2012 | 2011 |
|---|--------|--------|
| Retirees and beneficiaries receiving benefits | 3,671 | 3,446 |
| Terminated employees entitled to but not yet receiving benefits | 1,825 | 1,692 |
| Current active plan members | 10,891 | 10,989 |
| Total | 16,387 | 16,127 |

Tax status: The Internal Revenue Service has determined and informed CERF by letter dated September 28, 2011, that the plan as amended through November 1, 2010 is in a form acceptable under the Internal Revenue Code.

3. FUNDED STATUS AND FUNDING PROGRESS:

The funded status of the plan as of July 1, 2012, the most recent actuarial valuation date, is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b)- (a))/(c) |
|--------------------------------|-------------------------------------|---|-----------------------------------|----------------------------|------------------------|--|
| 7/1/2012 | \$ 331,189,281 | \$ 482,565,132 | \$ 151,375,851 | 68.6% | \$ 357,441,466 | 42.3% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|--|
| Valuation Date | July 1, 2012 |
| Actuarial Cost Method | Entry age actuarial cost method |
| Amortization Method | Level percent |
| Remaining Amortization Period | 20 years * |
| Asset Valuation Method | 5 year smoothed market |
| Actuarial Assumptions: | |
| Investments rate of return | 8% |
| Projected salary increases** | 0.2% - 7.6% depending upon length of service |
| Cost-of-living adjustments | 1% |

* Until July 1, 2011, the UAAL was being amortized as a level percentage of payroll over a 30-year period beginning January 1, 1995. As of July 1, 2011, the UAAL amortization was started fresh over a 20-year period. New components of the UAAL will be amortized over new 20-year periods as such components arise.

** 3% is added to these rates to allow for inflation.

4. DEPOSITS AND INVESTMENTS

Custodial Credit Risk for Deposits: Custodial credit risk is the risk that in the event of a bank failure, CERF's deposits may not be returned to it. At December 31, 2012 and 2011, CERF's bank balances were secured by a combination of federal depository insurance and pledged collateral held in CERF's name by an agent of the depository bank.

Investments: Funds are invested by outside managers under policies established by the Board of Directors. The Board requires that its investment managers invest CERF's assets with the care, skill, and diligence a prudent person familiar with such matters acting in a like capacity would use in a similar enterprise with like objectives.

The following table summarizes CERF investments by type at December 31, 2012 and 2011:

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| U.S. government and agencies securities | \$ 15,789,995 | \$ 16,220,776 |
| Foreign bonds | 15,033,696 | 9,521,724 |
| Corporate bonds and notes | 26,923,953 | 25,725,906 |
| Domestic stocks | 134,612,707 | 114,072,163 |
| International equities funds | 48,575,760 | 42,800,813 |
| Private equity | 5,379,993 | 3,743,106 |
| Hedge funds | 79,098,504 | 70,119,326 |
| Real estate fund | 11,313,670 | 10,320,633 |
| Cash equivalents | 9,402,505 | 9,344,815 |
| Total | <u>\$ 346,130,783</u> | <u>\$ 301,869,262</u> |

CERF's investment policy permits investments in equity and fixed income (debt) securities and real estate, with guidelines for the percentage of the total for each category and for the type of investments within each category.

Investment income in the statement of changes in plan net position displays the realized and unrealized investment gains and losses from all investment types on the line item "Net appreciation (depreciation) in fair value of investments". Totals for interest, dividends, and other types of investment income are presented by broad categories of investments.

With respect to debt securities, the policy permits fixed and variable rate securities issued or guaranteed by the U.S. government, its agencies or instrumentalities; and U.S. government sponsored and other corporation securities. To manage interest rate and credit risks, two investment managers are used for debt securities, each operating under specific guidelines with respect to approved securities, duration, diversification, and minimum quality ratings by Moody's or Standard and Poors.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the option-adjusted methodology. The Fund benchmarks the fixed income portfolio to the Barclays Capital Aggregate Bond Index. At December 31, 2012, the effective duration of the Barclays Capital Aggregate Bond Index was 6.31 years, whereas, CERF's fixed income portfolio had an effective duration of 6.37 years. At December 31, 2011, the effective duration of the Barclays Capital Aggregate Bond Index was 6.12 years, whereas, CERF's fixed income portfolio had an effective duration of 6.21 years. The following table summarizes duration by investment type as of December 31, 2012:

| Investment | 2012 Fair Value | Effective Duration Rate in Years |
|---------------------------------------|----------------------|--|
| U.S. Treasuries | \$ 5,707,595 | 13.31 |
| U.S. agencies mortgage pool | 10,082,400 | 5.18 |
| Commercial mortgage backed securities | 2,868,335 | 3.21 |
| Other asset backed securities | 2,211,644 | 2.46 |
| U.S. corporate - financial | 6,286,026 | 4.20 |
| U.S. corporate - industrial | 14,807,464 | 6.07 |
| U.S. corporate - utility | 750,484 | 13.63 |
| International | 15,033,696 | 6.52 |
| Preferred stock | 103,126 | 13.72 |
| Total | <u>\$ 57,850,770</u> | |

The following table summarizes duration by investment type as of December 31, 2011:

| Investment | 2011 Fair Value | Effective Duration Rate in Years |
|---------------------------------------|----------------------|--|
| U.S. Treasuries | \$ 6,081,053 | 15.19 |
| U.S. agencies mortgage pool | 10,139,723 | 2.72 |
| Commercial mortgage backed securities | 5,081,097 | 3.96 |
| Other asset backed securities | 1,897,326 | 2.37 |
| U.S. corporate - financial | 5,062,009 | 4.17 |
| U.S. corporate - industrial | 12,718,879 | 6.32 |
| U.S. corporate - utility | 966,595 | 11.18 |
| International | 9,521,724 | 6.54 |
| Preferred stock | 75,269 | 9.34 |
| Total | <u>\$ 51,543,675</u> | |

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the plan. CERF's debt securities investments by credit rating category as of December 31, 2012 are presented in the following table.

| Credit Rating Level | Total | U.S. Treasuries and Direct-Guaranteed Agencies | U.S. Sponsored Agencies - Mortgage Pools | Commercial Mortgage Backed Securities | Other Commercial Asset Backed Securities | U.S. Corporate - Financial | U.S. Corporate - Industrial | U.S. Corporate - Utility | Foreign | Preferred/Equity |
|---------------------|----------------------|--|--|---------------------------------------|--|----------------------------|-----------------------------|--------------------------|----------------------|-------------------|
| Guaranteed | \$ 5,707,595 | \$ 5,707,595 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Aaa | 14,367,157 | - | 10,082,400 | 1,955,640 | 1,973,632 | - | - | - | 355,485 | - |
| Aa1 | 3,495,967 | - | - | 733,247 | - | 771,255 | 989,632 | 207,190 | 794,643 | - |
| A1 | 8,921,601 | - | - | 179,448 | 238,012 | 2,237,951 | 1,076,026 | - | 5,190,164 | - |
| Baa1 | 15,781,163 | - | - | - | - | 1,661,125 | 7,125,914 | 543,294 | 6,450,830 | - |
| Ba1 | 6,142,262 | - | - | - | - | 694,746 | 3,784,153 | - | 1,663,363 | - |
| B1 | 3,135,594 | - | - | - | - | 920,949 | 1,831,739 | - | 279,780 | 103,126 |
| Caal | 299,431 | - | - | - | - | - | - | - | 299,431 | - |
| Total | <u>\$ 57,850,770</u> | <u>\$ 5,707,595</u> | <u>\$ 10,082,400</u> | <u>\$ 2,868,335</u> | <u>\$ 2,211,644</u> | <u>\$ 6,286,026</u> | <u>\$ 14,807,464</u> | <u>\$ 750,484</u> | <u>\$ 15,033,696</u> | <u>\$ 103,126</u> |

CERF's debt securities investments by credit rating category as of December 31, 2011 are presented in the following table.

| Credit Rating Level | Total | U.S. Treasuries and Direct-Guaranteed Agencies | U.S. Sponsored Agencies - Mortgage Pools | Commercial Mortgage Backed Securities | Other Commercial Asset Backed Securities | U.S. Corporate - Financial | U.S. Corporate - Industrial | U.S. Corporate - Utility | Foreign | Preferred/Equity |
|---------------------|----------------------|--|--|---------------------------------------|--|----------------------------|-----------------------------|--------------------------|---------------------|------------------|
| Guaranteed | \$ 6,081,053 | \$ 6,081,053 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Aaa | 14,476,823 | - | 10,139,723 | 2,760,637 | 1,525,064 | - | - | - | 51,399 | - |
| Aa1 | 1,775,471 | - | - | 264,647 | - | 1,083,288 | - | - | 427,536 | - |
| A1 | 29,210,328 | - | - | 2,055,813 | 372,262 | 3,978,721 | 12,718,879 | 966,595 | 9,042,789 | 75,269 |
| Total | <u>\$ 51,543,675</u> | <u>\$ 6,081,053</u> | <u>\$ 10,139,723</u> | <u>\$ 5,081,097</u> | <u>\$ 1,897,326</u> | <u>\$ 5,062,009</u> | <u>\$ 12,718,879</u> | <u>\$ 966,595</u> | <u>\$ 9,521,724</u> | <u>\$ 75,269</u> |

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. CERF's investment guidelines require diversified portfolios with no single issue, excluding U.S. government securities, being greater than 5% of each manager's total portfolio value at cost or 7% at market value. As of December 31, 2012 and 2011, no single issue exceeded the thresholds.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The following is a summary of CERF's foreign bonds and international equities funds showing the exposure to foreign currency risk as of December 31, 2012 and 2011:

| | 2012 | 2011 |
|-----------------------------|----------------------|----------------------|
| Argentina Peso | \$ 276,000 | \$ 321,600 |
| Australian Dollar | 503,242 | 105,582 |
| Bermuda Dollar | 396,828 | 164,531 |
| Brazilian Real | 3,154,354 | 1,839,475 |
| Canadian Dollar | 925,649 | 1,700,814 |
| Cayman Islands Dollar | 1,993,881 | 1,768,970 |
| Chilean Peso | 164,850 | 161,020 |
| China Yuan Renminbi | 1,125,647 | 920,071 |
| Colombian Peso | 203,250 | - |
| Czech Koruna | 388,711 | - |
| Euro | 17,842,405 | 15,428,692 |
| Hong Kong Dollar | 518,205 | 2,783,008 |
| Indian Rupee | - | 15,083 |
| Israeli New Shekel | 693,755 | - |
| Japanese Yen | 11,558,297 | 9,887,398 |
| Korean Won | 2,717,203 | 135,748 |
| Mexican Peso | 4,091,176 | 3,671,222 |
| Norwegian Krone | 93,459 | - |
| Philippine Peso | 253,151 | - |
| Russian Ruble | 830,554 | 150,831 |
| Singapore Dollar | 1,069,299 | 302,641 |
| South Korean Won | 390,096 | 1,675,858 |
| Swiss Franc | 3,098,477 | 2,972,383 |
| United Arab Emirates Dirham | 385,800 | 145,800 |
| United Kingdom Pound | 10,013,419 | 6,723,788 |
| United States Dollar | 921,748 | 1,448,022 |
| Total Foreign Securities | <u>\$ 63,609,456</u> | <u>\$ 52,322,537</u> |

Securities Lending Program:

Description of the Program: CERF participates in a securities lending program administered by KeyBank National Association (the custodian). Under this program, the Board of Directors has authorized CERF to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. At the initiation of a loan, borrowers are required to provide cash collateral at 102% of the market value of loaned securities. This cash collateral is then invested in certain qualified investments as detailed in the securities lending agreement. The maturities of the investments made with cash collateral do not generally match the maturity of security loans. There are no restrictions on the amount of securities that can be lent at one time. CERF does not have the ability to pledge or sell collateral securities unless the borrower defaults. CERF and the borrowers each maintained the right to terminate all security lending transactions on demand.

Transactions with Borrowers During the Period: Securities lent as of December 31, 2012 and 2011 consisted of U.S. government and agency securities, U.S. equities, U.S. corporate bonds, and mortgage backed securities. The average term of securities loans was 1 day at December 31, 2012 and 2011. The

fair value, including accrued interest, of securities on loan was \$47,401,541 and \$62,616,039, as of December 31, 2012 and 2011, respectively. Because the fair value of collateral held exceeded the fair value of securities lent at December 31, 2012 and 2011, CERF had no credit risk exposure to borrowers as of those dates. There were no losses during the year resulting from a default of the borrowers or the custodial bank.

Investment of Cash Collateral During the Period: The weighted average duration of collateral investments was 1.9 days and 2.4 days at December 31, 2012 and 2011, respectively. The fair value of collateral investments was \$46,947,061 and \$63,074,150 as of December 31, 2012 and 2011, respectively. CERF's securities lending policy states that in the event a security held in the collateral investments portfolio is downgraded below A3 by Moody's or A- by Standard and Poors that a potential course of action be discussed. Such potential actions include selling the security as soon as possible or holding the security in the hopes of an improved market. As of December 31, 2012, 2.35% or \$1,101,704, of the total market value of the collateral investments portfolio was in securities that had fallen below these minimum ratings thresholds. As of December 31, 2011, 1.81%, or \$1,138,957, of the total market value of the collateral investments portfolio was in securities that had fallen below these minimum ratings thresholds. The fair value of collateral investments was \$1,376,149 and \$1,746,376 less than the liability for the collateral held for securities on loan as of December 31, 2012 and 2011, respectively. The agreement between CERF and the securities lending agent does not provide for indemnification to CERF for any loss incurred as a result of CERF's participation in the program.

Securities Lending Income: Security lending income from CERF's share of income on investments made from cash collateral less borrower rebates and fees of the securities lending agent was \$118,430 and \$105,481 for 2012 and 2011, respectively.

The following table summarizes duration by investment type as of December 31 for securities lending invested collateral subject to interest rate risk:

| Investment | 2012 | | 2011 | |
|-----------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Fair Value | Effective Duration Rate | Fair Value | Effective Duration Rate |
| Repurchase agreements | \$ 36,000,000 | 1-75 days | \$ 30,500,000 | 1-49 days |
| Money market funds | 9,845,357 | 1 day | 21,438,074 | 1 day |
| Corporate notes | 1,101,704 | 1-269 days | 1,138,957 | 1-271 days |
| Commercial paper | - | - | 9,997,119 | 5-18 days |
| Total | <u>\$ 46,947,061</u> | | <u>\$ 63,074,150</u> | |

The following table summarizes credit ratings by investment type as of December 31 for securities lending invested collateral subject to credit risk:

| Moody's Credit Rating Level | 2012 | | | 2011 | | | |
|-----------------------------------|--------------------------|-----------------------|---------------------|--------------------------|-----------------------|---------------------|---------------------|
| | Repurchase Agreements | Money Market Funds | Corporate Notes | Repurchase Agreements | Money Market Funds | Corporate Notes | Commercial Paper |
| Not rated | \$ 36,000,000 | \$ - | \$ 1,101,704 | \$ 30,500,000 | \$ - | \$ 1,138,957 | \$ - |
| Aaa | - | 9,845,357 | - | - | 21,438,074 | - | - |
| P1 | - | - | - | - | - | - | 9,997,119 |
| Total | <u>\$ 36,000,000</u> | <u>\$ 9,845,357</u> | <u>\$ 1,101,704</u> | <u>\$ 30,500,000</u> | <u>\$ 21,438,074</u> | <u>\$ 1,138,957</u> | <u>\$ 9,997,119</u> |

5. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2012:

| | January 1, 2012 | Additions | Disposals | December 31, 2012 |
|--|--------------------|------------|-----------|----------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 932,050 | \$ - | \$ - | \$ 932,050 |
| Computer software in development | - | 301,911 | - | 301,911 |
| Total assets not being depreciated | 932,050 | 301,911 | - | 1,233,961 |
| Assets being depreciated: | | | | |
| Building | 3,022,819 | - | - | 3,022,819 |
| Equipment, furnishings and computer software | 1,748,848 | 26,830 | (879) | 1,774,799 |
| Total assets being depreciated | 4,771,667 | 26,830 | (879) | 4,797,618 |
| Less accumulated depreciation | 2,190,846 | 83,230 | (879) | 2,273,197 |
| Net assets being depreciated | 2,580,821 | (56,400) | - | 2,524,421 |
| Total capital assets | \$ 3,512,871 | \$ 245,511 | \$ - | \$ 3,758,382 |

Capital assets consist of the following as of December 31, 2011:

| | January 1, 2011 | Additions | Disposals | December 31, 2011 |
|--|--------------------|-------------|-----------|----------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 932,050 | \$ - | \$ - | \$ 932,050 |
| Assets being depreciated: | | | | |
| Building | 3,022,819 | - | - | 3,022,819 |
| Equipment, furnishings and computer software | 1,741,902 | 20,012 | (13,066) | 1,748,848 |
| Total assets being depreciated | 4,764,721 | 20,012 | (13,066) | 4,771,667 |
| Less accumulated depreciation | 2,094,579 | 109,333 | (13,066) | 2,190,846 |
| Net assets being depreciated | 2,670,142 | (89,321) | - | 2,580,821 |
| Total capital assets | \$ 3,602,192 | \$ (89,321) | \$ - | \$ 3,512,871 |

6. PRIOR SERVICE CONTRIBUTIONS

An eligible county employee who was employed prior to CERF's inception on August 28, 1994, is considered to have prior service. If the employee was working on June 10, 1999, and worked through January 1, 2000, the prior service is awarded. This means the employee does not have to purchase the service to have it deemed creditable. If the employee did not work continually from June 10, 1999 through January 1, 2000, the prior service must be purchased to become creditable. The prior service is calculated at the time of retirement and can be paid in one lump sum or over a period of up to 48 months. The monthly pension benefit is reduced by the buyback amount until the prior service has been paid in full.

An eligible county employee who was employed on January 1, 1990, but not employed on August 28, 1994, and who had at least eight years of service is classified as a special consultant. A special consultant can elect to purchase eight years or more of their service in order to receive a CERF benefit. Since a special consultant would have terminated employment prior to CERF's inception, they are required to make a larger buyback and must pay at least 50% of this amount up front. The remaining amount is deducted from the monthly pension benefit for up to 48 months.

An eligible county employee who opted out of the system prior to January 1, 2000 had the option to become a member within three months of the three year anniversary of the decision to opt out. Upon deciding to opt in to the system, such employee either purchased in total or began payroll deductions to purchase all or part of their prior creditable service plus interest over a maximum period of four years. Such amounts are recognized as contributions when received by CERF.

The receivables for member prior service contributions shown on the accompanying statements of net position represent the total amount, as of December 31, 2012 and 2011, that is due in future periods from retirees who have elected to purchase prior service.

7. RETIREMENT PLANS FOR FUND EMPLOYEES

All full-time employees of CERF are eligible for participation in a defined contribution plan. CERF contributes 6% of a participating employee's monthly gross salary to the plan. The contribution requirements of the plan are governed by the plan document, which may be amended by the Board of Directors. Employees do not contribute to the retirement plan. Employees become vested in contributions made by CERF after 5 years of creditable service. Total contributions for the year ended December 31, 2012 and 2011 were \$48,235 and \$43,057, respectively.

All full-time employees are eligible for participation in an Internal Revenue Code (IRC) 457 deferred compensation plan upon their eligibility in the defined contribution plan.

8. DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLANS

Plan Description: Effective January 1, 2000, CERF also administers a defined contribution plan and an IRC Section 457 deferred compensation plan. Members of the pension plan are eligible to participate. The plans were established to provide an opportunity for members of the pension plan to have additional retirement benefits. The plans' provisions and contribution requirements are established and may be amended only by action of the Missouri Legislature.

Contributions: Pension plan members who are not members of LAGERS are required to contribute 0.7% of gross compensation to the defined contribution plan. Contributions of \$804,913 and \$767,322 were made during the years ended December 31, 2012 and 2011, respectively. Participation in the 457 plan is voluntary. The level of contributions to the 457 plan is elected by the employee, subject to the limitations of IRC Sections 401(a) and 457. CERF's Board of Directors determines if matching contributions from the pension plan trust funds for a calendar year will be made to the defined contribution plan accounts of those who participated in the 457 plan. The amount of any matching contribution is limited to an amount not needed to keep the pension plan actuarially sound. The matching contribution is also limited to 50% of a member's voluntary contributions to the 457 plan, up to 3% of the member's compensation. Members vest in the matching portion of contributions allocated to their respective accounts after five years of creditable service. Matching contributions for the years ended December 31, 2012 and 2011 were \$2,472,044 and \$2,224,641, respectively.

Administration: Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian, respectively. Member contributions are sent directly to the third party administrator by the counties. Members can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Separate trust funds are maintained for the defined contribution and 457 plan assets.

Because CERF does not hold the plans' assets and does not have significant administrative responsibilities, the plans' assets and changes in net assets are not reported in CERF's financial statements.

9. RISK MANAGEMENT

CERF is exposed to various risks of loss related to natural disasters, errors and omission, loss of assets, torts, etc. CERF has chosen to cover such losses through the purchase of commercial insurance. There have been no significant insurance claims filed or paid during the past three years.

10. COMMITMENTS

CERF had total unfunded capital commitments to a private equity limited partnership investment fund of \$4,649,862 and \$6,344,980 as of December 2012 and 2011, respectively.

In December 2012, CERF entered into an agreement with a third party software company to develop and license a new system to be used for Plan administration in the amount of \$1,865,600. CERF's unpaid commitment under the agreement was \$1,565,600 as of December 31, 2012.

COUNTY EMPLOYEES' RETIREMENT FUND

REQUIRED SUPPLEMENTARY INFORMATION December 31, 2012

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b)-(a))/(c) |
|--------------------------------|-------------------------------------|---|--------------------------------|-------------------------|------------------------|---|
| 7/1/07 | 254,803,856 | 308,563,489 | 53,759,633 | 82.6% | 320,317,003 | 16.8% |
| 7/1/08 | 271,146,789 | 364,213,668 | 93,066,879 | 74.4% | 335,961,755 | 27.7% |
| 7/1/09 | 270,397,854 | 396,537,305 | 126,139,451 | 68.2% | 352,719,824 | 35.8% |
| 7/1/10 | 294,482,927 | 423,561,319 | 129,078,392 | 69.5% | 361,334,336 | 35.7% |
| 7/1/11 | 318,320,084 | 452,366,458 | 134,046,374 | 70.4% | 353,991,192 | 37.9% |
| 7/1/12 | 331,189,281 | 482,565,132 | 151,375,851 | 68.6% | 357,441,466 | 42.3% |

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Six Months Ended June 30, | Required Contribution | Actual Contribution | Percentage Contributed |
|------------------------------|--------------------------|------------------------|---------------------------|
| 2007 | 6,474,975 | 11,656,551 | 180.0% |
| Years Ended June 30, | | | |
| 2008 | 11,930,574 | 20,000,450 | 167.6% |
| 2009 | 16,011,408 | 19,994,180 | 124.9% |
| 2010 | 19,095,323 | 19,815,866 | 103.8% |
| 2011 | 19,872,429 | 19,440,212 | 97.8% |
| 2012 | 17,486,046 | 19,953,174 | 114.1% |

COUNTY EMPLOYEES' RETIREMENT FUND

SCHEDULES OF ADMINISTRATIVE EXPENSES For the Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|--------------|--------------|
| Personal services | | |
| Staff salaries | \$ 831,962 | \$ 779,345 |
| Social security | 57,650 | 54,804 |
| Retirement | 48,235 | 43,057 |
| Insurance | 136,088 | 134,346 |
| Total personal services | 1,073,935 | 1,011,552 |
| Professional services | | |
| Actuarial | 155,812 | 165,690 |
| Audit | 50,164 | 54,751 |
| Legal counsel | 169,004 | 171,954 |
| Legislative consultant | 67,000 | 67,000 |
| Plan design and implementation consultants | 24,304 | 26,207 |
| Total professional services | 466,284 | 485,602 |
| Communication | | |
| Printing | 21,598 | 22,561 |
| Postage | 24,889 | 23,065 |
| Telephone | 25,110 | 22,459 |
| Total communication | 71,597 | 68,085 |
| Rentals | | |
| Equipment leasing and maintenance | 36,353 | 32,974 |
| Total rentals | 36,353 | 32,974 |
| Depreciation | 83,230 | 109,333 |
| Miscellaneous | | |
| Utilities | 20,678 | 22,550 |
| Board of directors expenses | 20,882 | 16,092 |
| Business risk insurance premiums | 68,529 | 64,431 |
| Staff development | 23,975 | 22,517 |
| Office | 98,530 | 84,123 |
| Property taxes | 124 | 177 |
| Total miscellaneous | 232,718 | 209,890 |
| Total administrative expenses | \$ 1,964,117 | \$ 1,917,436 |

COUNTY EMPLOYEES' RETIREMENT FUND

SCHEDULES OF INVESTMENT EXPENSES For the Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--------------------------------------|---------------------|---------------------|
| Investment management expenses | | |
| Domestic stocks | \$ 947,386 | \$ 865,423 |
| International stocks | 324,612 | 229,523 |
| Bonds | 181,012 | 164,451 |
| Private equity | 48,973 | 64,692 |
| Real estate | 126,860 | 100,828 |
| Total investment management expenses | <u>1,628,843</u> | <u>1,424,917</u> |
| Other investment expenses | | |
| Investment consultants | 163,649 | 153,971 |
| Investment custodian | 104,448 | 99,573 |
| Bank depository | 5,225 | 5,645 |
| Total other investment expenses | <u>273,322</u> | <u>259,189</u> |
| Total investment expenses | <u>\$ 1,902,165</u> | <u>\$ 1,684,106</u> |
| Securities lending expenses | | |
| Borrower rebates | \$ 13,035 | \$ 59,130 |
| Agent fees | 29,605 | 26,357 |
| Total securities lending expenses | <u>\$ 42,640</u> | <u>\$ 85,487</u> |